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**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION**

**MINUTES OF MEETING**

**Wednesday, November 16, 2011**

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The Board of Administration met on Wednesday, November 16, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:05 a.m. and the following members were present:

Rob Feckner, President  
George Diehr, Vice President  
Michael Bilbrey  
Terry McGuire for John Chiang  
Richard Costigan  
Dan Dunmoyer  
JJ Jelincic  
Grant Boyken for Bill Lockyer  
Lou Moret  
Tony Oliveira  
Ronald Yank

Board of Administration Members excused: Henry Jones, Priya Mathur

**AGENDA ITEM 3 – APPROVAL OF OCTOBER 2011 MEETING MINUTES**

On **MOTION** by George Diehr, **SECONDED** by Richard Costigan, and **CARRIED** that the October 19, 2011 Open Session minutes be approved as presented.

**AGENDA ITEM 4 – PRESIDENT'S REPORT**

President Feckner commented on the following:

- CalPERS recently held its 12<sup>th</sup> annual Educational Employers' Forum in Long Beach. Ten of the thirteen Board members were able to attend and participate. President Feckner thanked the entire organization for a job well done.

- CalPERS staff shared many stories with President Feckner on the eve of the Veteran's Day holiday, expressing support for all those who have served in the military.
- On November 2<sup>nd</sup>, Priya Mathur welcomed a new baby girl, Amelie Tomas Mathur-Quijano.

## **AGENDA ITEM 5 – CHIEF EXECUTIVE OFFICER'S REPORT**

Anne Stausboll reported on the following recent activities:

- The Governor recently released a 12-point pension reform proposal, and a pension reform organization has released two other proposals through the initiative process. CalPERS is actively engaging policymakers and providing information to ensure that public employee retirement plans are sustainable, secure, and cost effective.
- On October 26, CalPERS staff testified at the first of the hearings of the Joint Legislative Committee on Pensions and will testify again on December 1, on the impact of the Governor's proposal. Over the coming weeks, CalPERS will meet with stakeholders and prepare various analyses on these proposals. A high level comparison of the Governor's proposal and the two initiatives was presented and will be available on the CalPERS Responds website.
- CalPERS executive staff met earlier in the month with employer group representatives from the California State Association of Counties (CSAC), the League of Cities, the Association of California Water Agencies, the California Special District Association, the Urban Counties Caucus, and the Regional Council of Rural Counties to discuss issues they're facing and get input on how to better support their member employers. Updates were given on the myCalPERS system, the healthcare purchasing review project and pension reform. These roundtables will be held quarterly, with the next one scheduled for March 2012.
- Over 600 representatives from local public agencies participated in the CalPERS Employer Educational Forum. Ms. Stausboll thanked the members of the Board who were able to participate, as well as all the staff that were involved in the effort.
- The Executive team is now developing the Business Plan for 2012-13. The strategic planning process will begin at the January 2012 Board offsite.
- CalPERS leaders are currently participating in a program called the Executive Diversity and Inclusion Development Journey, intended to strengthen CalPERS diversity effort.

- The California State Employees' Food Drive is now underway through January 13. CalPERS goal this year is to collect 52,000 pounds of food.
- Katrina (Katie) Hagen has been selected as the new Chief of Human Resources. Katie joined CalPERS on October 24 from California Prison Healthcare Services where she served as Deputy Director of Human Resources for the last five years.

Ms. Stausboll recognized the efforts of the Executive team members who have operated in the past year in an enterprise-wide fashion, making critical decisions about the organizational restructure, the my|CalPERS launch and implementation, developing a risk dashboard, and pension reform.

## **AGENDA ITEM 6 – CHIEF INVESTMENT OFFICER'S REPORT**

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- As of the close of business on Monday, November 14, the Total Fund had assets of \$227.3 billion.
- Three big risks that are weighing on the market are related to conditions in Europe, the Middle East and China:
  - The sovereign debt crisis in Europe continues, with the lack of certainty that enough liquidity and support will be available to prevent uncontrolled defaults and maintain banking system solvency.
  - In the Middle East, there is worry that political instability and conflict would affect oil prices.
  - China has maintained a nine percent or better growth rate through a massive stimulus program that may not be indefinitely sustainable.
- Mr. Dear has just returned from a trip to Beijing, Shanghai and Hong Kong where he visited a number of government affiliated investment agencies, major bankers and investors, toured a factory and property developments, and attended a few investment conferences.

## **AGENDA ITEM 7 – INVESTMENT COMMITTEE**

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday and Tuesday, November 14 and 15, 2011.

Additional information may be found in the November 14-15, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for December 12, 2011 in Sacramento, California.

#### **AGENDA ITEM 8 –RISK MANAGEMENT COMMITTEE**

The Committee did not meet in November.

#### **AGENDA ITEM 9 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE**

The Committee did not meet in November.

#### **AGENDA ITEM 10 – HEALTH BENEFITS COMMITTEE**

George Diehr, Vice President, presented the Health Benefits Committee Summary report to the Board. The Committee met on Tuesday, November 15, 2011.

Additional information may be found in the November 15, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED** with one nay vote by Grant Boyken, the Board approved the following:

- A one-year contract extension until December 31, 2012, with United Health Actuarial Services, Inc.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the Long-Term Care Program 2011 annual valuation report; and, lowering of the discount rate assumption from 7.79 percent to 6.25 percent for years 1-10 and 7.60 percent for years 11+ to reflect the recently adopted asset allocation.

The next meeting of the Health Benefits Committee is scheduled for December 13, 2011 in Sacramento, California.

#### **AGENDA ITEM 11 – FINANCE COMMITTEE**

Lou Moret, Vice Chair, presented the Finance Committee Summary report to the Board. The Committee met on Tuesday, November 15, 2011.

Additional information may be found in the November 15, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the Office of Audit Services Charter Revision as a second reading.

- Approval of the transmittal letter and submission of the Year End Budget and Expenditure Report for FY 2010-11 to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2010, and to the Legislative Analyst's Office, State and Consumer Services Agency and the Office of the Legislative Counsel.
- Fiscal Year 2011-12 Health Budget Change Proposal:
  1. Acceptance of an increase of \$202,000 and 2.0 limited-term positions to the Contingency Reserve Fund (CRF) in FY 2011-12 for a total CRF budget of \$26,926,000 and approval of this revised budget.
  2. Acceptance of a decrease to the Public Employees' Retirement Fund (PERF) of \$202,000 in FY 2011-12 for a total PERF budget of \$284,469,000 and approval of this revised budget.
  3. Approval of the transmittal of this agenda item to the Joint Legislative Budget Committee and Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the Budget Act of 2011, and to the Legislative Analyst's Office and the State Consumer Services Agency.
- Fiscal Year 2011-12 Mid-Year Budget Readings (First Reading):
  1. Acceptance of the proposed California Public Employees' Retirement System (CalPERS) FY 2011-12 Mid-Year increase of 25.0 positions, increasing CalPERS total authorized positions to 2,393, while maintaining the existing Administrative Budget of \$334,196,000, and approval of the Budget as a first reading.
  2. Acceptance of the proposed CalPERS FY 2011-12 Mid-Year increase of \$6,844,000 to the Enterprise Projects Budget for a total budget of \$49,855,000, and approval of the Budget as a first reading.
  3. Acceptance of the proposed CalPERS FY 2011-12 cost allocation adjustments to the Public Employees' Retirement Fund (PERF), and other funds, and approval of the cost allocation as a first reading.
  4. Approval of the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the Budget Act of 2011, and to the Legislative Analyst's Office and the State and Consumer Services Agency.

- Acceptance of the draft basic financial statements, as audited by Macias, Gini, & O'Connell LLP, as of and for the fiscal year ended June 30, 2011, and approval of the letter of transmittal.
- Approval of proposed changes to the 2011-12 Business Plan.

The next meeting of the Finance Committee is scheduled for December 13, 2011 in Sacramento, California.

## **AGENDA ITEM 12 –BOARD GOVERNANCE COMMITTEE**

George Diehr, Vice President, presented the Board Governance Committee Summary report to the Board. The Committee met on Tuesday, November 15, 2011.

Additional information may be found in the November 15, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the following as a First Reading:
  - Board Agenda Template (Attachment #1 to Agenda materials)
  - Committee Agenda Template (Attachment #2 to Agenda materials)
  - Agenda Item Template (Attachment #3 to Agenda materials)

## **AGENDA ITEM 13 – PERFORMANCE AND COMPENSATION COMMITTEE**

The Committee did not meet in November.

## **AGENDA ITEM 14 – EXTERNAL AFFAIRS UPDATE**

Robert Glazier, Director, External Affairs, provided an update on External Affairs and reported on the following:

- The CalPERS Ambassador program, designed to educate and empower CalPERS beneficiaries who choose to participate in the pension debate, currently has over 120 CalPERS retirees. The program is expected to expand to hold regional meetings next year.
- Over the next six months, key recommendations of a recent reputational risk assessment will be included in CalPERS stakeholder relations plan.

Laura Enderton, Manager, Office of Stakeholder Relations, presented a baseline report prepared for comparing future annual and semi-annual reputational risk assessments.

## **AGENDA ITEM 15 – BOARD’S STATE LEGISLATIVE PROGRAM/BOARD’S POSITION ON STATE LEGISLATION**

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following:

- A comparison of Governor Brown’s pension reform proposal and two other proposals that have been filed as initiatives was presented.
- A series of hearings on the Governor’s proposals will begin on December 1, where impacted retirement systems and employer groups will have the opportunity to speak.
- Governmental Affairs is currently working on a few legislative proposals for presentation to the appropriate committees next month.

## **AGENDA ITEM 16 – BOARD’S FEDERAL LEGISLATIVE PROGRAM/BOARD’S POSITION ON FEDERAL LEGISLATION**

Tom Lussier, CalPERS Federal Liaison, provided updates on federal legislation and reported on the following:

- The federal deficit Super Committee must present formal legislative language to the House and Senate by Monday, and a vote on the package must take place by Wednesday. Key issues of concern for CalPERS do not appear to be on the table.
- A number of pieces of legislation have advanced in both the Health Committee and the Financial Services Committee in the House, related to the Affordable Care Act and the Dodd-Frank Act. This legislation would incrementally repeal provisions that are of interest to CalPERS, although Staff believes it unlikely to pass in the Senate.
- Staff has completed a tour of all of the district offices of every member of the California congressional delegation to distribute general information about public pension plans in general and to provide contact information on CalPERS staff.

## **AGENDA ITEM 17 – PUBLIC AFFAIRS UPDATE**

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs and presented the Strategic Communications Report.

## **AGENDA ITEM 18 – PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE**

Donna Lum, Deputy Executive Officer, Customer Services and Support, reported on the overall status of the project:

- Customer service levels continue to be impacted due to backlogs created by holding transactions prior to launch, manual workarounds and critical system defects. The areas most impacted are death benefit processing, service credit purchases, disability retirements and retirement adjustments.
- Staff is focused on finding ways to alleviate some of the issues by prioritizing system fixes, applying fixes directly to member accounts, and implementing emergency procedures to address hardship cases.

Karen Ruiz, PSR Project Manager, presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

John Nichols, Project Manager, Accenture, reported on the following:

- The project has implemented a direct support model approach for service credit purchase and death processing, with Accenture developers working directly with CalPERS key leads to expedite the most impactful kinds of corrections.

Chris Jasper, KPMG, Independent Project Oversight (IPOC), reported observing a lot of hard work and positive activity by the project team in affected business program areas. The backlog of work in some business units calls for more immediate corrective action to improve business operations, primarily the delivery of outstanding application updates, many of which are already scheduled. IPOC recommends immediate action to identify interim performance targets that will help set measurable expectations against which to chart progress as improvements are put into place.

The Board of Administration Open Session recessed at 11:10 a.m. and reconvened at 11:25 a.m.

Howard Schwartz replaced Ronald Yank at this time.

## **AGENDA ITEM 19 – BOARD GOVERNANCE PROJECT**

Peter Mixon, General Counsel, presented the implementation plan of the Board Governance Project with the proposed Board committee delegations.

On **MOTION** by George Diehr, **SECONDED** by Dan Dunmoyer and **CARRIED**, the Board approved adoption of Agenda Item 19a as a first reading.

On **MOTION** by Dan Dunmoyer, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved adoption of Agenda Item 19b as a first reading.

## **AGENDA ITEM 20 – DRAFT AGENDA FOR December 14, 2011 MEETING**

No changes were made.

## **AGENDA ITEM 21 – BOARD MEETING CALENDAR**

No changes were made.

## **AGENDA ITEM 22 – BOARD TRAVEL APPROVALS**

No travel approvals were pending.

## **AGENDA ITEM 23 – GENERAL COUNSEL’S REPORT**

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

## **AGENDA ITEM 24 – FULL BOARD HEARING DECISION – THOMAS HARRON**

On **MOTION** by JJ Jelincic, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved adopting its October 19 decision to adopt the Administrative Law Judge’s (ALJ) rejection of the \$222,000 as compensation earnable, but not to adopt the ALJ’s rollback of the retirement date to an earlier year.

## **AGENDA ITEM 25 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES**

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 25A through 25J.

On **MOTION** by George Diehr, **SECONDED** by Michael Bilbrey and **CARRIED**, the Board approved adopting the proposed decisions of Administrative Law Judges for 25B through 25J as the Board’s own.

On **MOTION** by George Diehr, **SECONDED** by Michael Bilbrey and **CARRIED** with a nay vote by JJ Jelincic, the Board approved adopting the proposed decision of the Administrative Law Judge for 25A as the Board’s own.

## **AGENDA ITEM 26 – PETITION FOR RECONSIDERATION**

On **MOTION** by JJ Jelincic, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved staff’s recommendation to reject the Petition for Reconsideration by Jo Ann Bailey.

## **AGENDA ITEM 27 – PUBLIC COMMENT**

Willien Davis, a retired member, was present to argue her longstanding claim against CalPERS.

There being nothing further to come before the Board of Administration, the meeting adjourned at 12:24 p.m.

The next Board of Administration meeting is scheduled for December 14, 2011 in Sacramento, California.

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ANNE STAUSBOLL  
Chief Executive Officer